

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2013-11

**NOTICE OF THE UNITED STATES POSTAL SERVICE OF REVISIONS TO
RESPONSE TO PARTS B AND C OF QUESTION 2 OF PRESIDING
OFFICER'S INFORMATION REQUEST NO. 6-- ERRATA**
(November 18, 2013)

On November 13, the Postal Service provided its responses to Questions 1-27 of Presiding Officer's Information Request No. 6, dated November 6, 2013. Attached is a revised response of Stephen Nickerson to parts b. and c. of Question 2. Part b is revised because of a concern that the original answer may have been based on a misinterpretation of the question, which may cause the original answer to be misinterpreted as well. Part c is revised to make explicit the previously implicit intent to provide updates when available. Part a of the answer is unchanged.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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2. On page 15 of the Statement of Stephen J. Nickerson on Behalf of the United States Postal Service, September 26, 2013 (witness Nickerson's Statement), he states: "All three forecast scenarios assume no price increase for Competitive Products. However, it is anticipated that a price increase for Competitive Products will also be effective on January 26, 2014. Actual price changes for Competitive Products will be decided by the USPS Board of Governors and announced at a later date. Given that Competitive products' revenues are less than 20 percent of total revenues, any possible price increase on this population will not materially impact our liquidity or the analysis in this filing."

a. Please place an upper bound on your definition of "not materially impact."

b. For each of the last three price changes of general applicability on competitive products (Docket Nos. CP2011-26, CP2012-2, and CP2013-3), please state (i) the overall average percentage increase in revenue, and (ii) the estimated total annual dollar increase in contribution.

c. If the "anticipated" price increase for competitive products is "decided by the USPS Board of Governors during the pendency of this case," please update all relevant Postal Service filings to take these competitive products price changes into account.

RESPONSE

(a) The statement "not materially impact" is of course judgmental in nature, -- and depends on what you are comparing. As such we have no definitive upper or lower bound. Recently, as shown below, Competitive price changes generate approximately \$200 to \$700 million in annualized contribution, although the increase at the high end of that range included the initial bump up from material increases implemented for several products when they were first shifted from Market Dominant to Competitive. At the time of this Exigent filing it appeared that the Competitive filing would be closer to the lower end of this range. In any case, comparing a potential increase in contribution in the range of hundreds of millions of dollars (and an equivalent increase in liquidity) to over \$60 billion in liabilities (including \$15 billion in debt to the U.S. Treasury, \$16.7 billion owed to the Postal Retiree Health Benefit Fund and over \$16 billion in accrued workers' compensation liabilities) to me does not necessarily amount to a material improvement in our financial position.

(b) The wording of part (i) of the question is susceptible to at least two interpretations. The question specifically refers to revenue, and seeks the "overall average percentage increase in revenue." The word "average" in this context is confusing. One interpretation is to calculate the overall percentage increase in *total* revenue, by calculating the

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difference between before-rates total Competitive Products revenue, and after-rates total Competitive Products revenue, and then express the difference as a percentage of before-rates revenue. This percentage increase is not only the overall percentage increase in *total* revenue, but in some sense is also the "overall average percentage increase in revenue," because it also equals what would be calculated by taking all of the revenue percentage increases for each product, and then calculating the average of those percentage increases across all products, after weighting each product's percentage increase by its share of total revenue. Nonetheless, if the percentage increase being sought was the percentage increase in overall *total* revenue, the phrasing of the question as it appears above would probably not have been the expected way to request that, because the word "average" would most likely have been omitted..

This leads to the second possible interpretation. It is also possible that what is being sought is the average percentage rate increase, because the way a rate increase is usually measured is to calculate the change in average revenue per piece (applying a fixed set of volume weights). So if the question had requested the "overall average percentage increase in revenue *per piece*," it would have been more clear that what was sought was not the percentage increase in total overall revenue, but rather the "overall percentage increase in *rates*." The primary difference between the increase in revenue and the increase in rates, of course, is that the increase in revenue will reflect the effects of the price elasticity on mail volume, while the increase in rates assumes constant volumes. To be clear, if one is seeking something comparable to the measure of the *rate* increases discussed in this case for Market Dominant products (i.e., a 1.7 percent rate increase in the CPI case, a 4.3 percent rate increase in the Exigent case, and slightly under 6.0 percent for the combined increase), then it would be necessary to apply this second interpretation, and calculate the average increase in revenue per piece on a fixed weight basis.

Therefore, because it is unclear which of these two possible interpretations of the question is intended, my response below provides both the percentage increase in total *revenue* (before-rates versus after-rates), and the percentage increase in *rates* (average revenue per piece, calculated on a fixed volume weight basis).

Docket No. CP2011-26 (i.) 2.1 percent increase in total revenue, 3.6 percent increase

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in rates (ii) \$256 million contribution

Docket No. CP2012-2 (i) 1.2 percent increase in total revenue, 4.6 percent increase in rates, (ii) \$293 million contribution

Docket No. CP2013-3 (i) 2.8 percent increase in total revenue, 9 percent increase in rates, (ii) \$705 million contribution

- (c) The price increase for competitive products is not final until filed. Filing is currently scheduled for November 13, 2013. Updates are being prepared and will be provided when available.